

1994

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Subject: Gold and Exchange Market Activities and Movements of Mid-East Funds

1. The gold market has been relatively quiet since the early June period and the pool showed a small net gain following June 6 during the remainder of the month. There has been some attrition in July but primarily due to a paucity of supply. There is no indication of any movement of Mid-East funds into gold following June 6. In fact it has never been clearly established that the heavy demand on June 5 and 6 and in the few days of pressure in May actually represented Mid-East buying.

2. The exchange markets have reflected some of the shifts of Mid-East funds. This has taken the form of a strengthened French franc and periodic pressure on sterling.

The Swiss franc also benefited from movements of Mid-East funds but the liquidity provided domestically by the Swiss-franc deposits tended to meet the usual mid-year requirements of the Swiss banks for franc liquidity and the normal June movement did not take place. It remains to be seen, however, whether the usual July outflow from Switzerland will take place. There is evidence of some reflow but since the inflow was not related to the usual mid-year window dressing, it is doubtful it will be fully reversed.

The Bank of England has been on both sides of the market in June and July but losses could not always be attributed in any direct way to movements of Mid-East funds. The general Mid-East situation and the threat of an attack on sterling by the oil countries has, however, obviously made the market nervous and sterling much more vulnerable to attack. In June the U. K. position on reserves and short-term credits worsened by about \$250 million.

3. Movements of Mid-East Funds. There have been few significant movements of funds since mid-June. A good deal of money which originally was transferred to Swiss and other Continental banks but held in dollars or sterling has, however, now been converted into other currencies, notably French francs. French banks appear to have aggressively sought such funds and much of the conversion appears to be motivated by interest rate rather than political factors. Where the two coincide it is, of course, difficult to be precise.

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Recapitulation of known movements since reporting began in June:

Jordan, Syria, Algeria, Tunisia, Lebanon. No significant movements reported. Except for Jordan and Lebanon, balances in U. S. were negligible.

Egypt. Some outward movements took place prior to our recording of transactions. These appeared motivated by a desire to escape possible U. S. control. Currently business seems to be fairly normal with numerous small payments both in and out.

Saudi Arabia. There were no movements that appeared to be related to flight from the dollar or sterling, although over the six weeks about \$20 million did move to Switzerland. As far as is known it remained in dollars.

Iraq. In early June Iraq withdrew almost all of its balances from the U. S. -- \$41 million and about \$65 million from the U. K. Much of the original transfer appeared to remain in dollars cloaked through various Continental and Russian banks but it seems likely a significant amount has since moved into other currencies.

Sudan. In early June the Sudan transferred the equivalent of \$36 million in sterling into Swiss francs with the Swiss National Bank. This amount was subsequently moved back into sterling but held through Swiss commercial banks.

Libya. There were three major transactions. One a transfer of \$28 million of sterling into dollars and held through Swiss commercial banks. This may represent nothing more than the normal diversification of Libyan reserves by currency and geographically.

The second was the \$53 million of assistance in sterling provided to Egypt, Syria and Jordan. Most, if not all, of these funds are believed to have ended up in French francs with either the Bank of France or French commercial banks.

The third was a transfer of \$30 million from the U. S. into sterling, of which \$28 million was placed with the Bank of England. The transaction was probably designed to even up the reserve drain from the preceding transaction and alleviate the effect on the British.

Kuwait. There were four transactions by Kuwait:

1. A transfer of \$30 million from New York to a Swiss bank. As far as is known, the funds remain in dollars.

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2. Kuwait granted \$72 million equivalent in sterling to Egypt, Syria and Jordan. Originally these amounts were converted into dollars and held through Swiss banks. There may, however, have subsequently been conversion into other currencies.
3. Transfer of \$38 million in sterling from the London branch of Manufacturers Trust into the Bank of England.
4. A transfer of \$90 million in sterling from the London office of a British bank to the account of the Tokyo office of the same bank.

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MOVEMENT OF MID-EAST FUNDS -- JUNE 5-JULY 12

(NOTED) H. H. F.

Country	Reporting Bank	Bank Moving Funds	Account to/from Which Transferred	Date Reported	Currency	(Mils. of \$) Amount	Remarks
<u>Kuwait</u>	B. of E.	Central Bank	U.K. commercial banks for Swiss account	June 9	Sterling	72.0	(Reflects assistance given to Egypt, Jordan & Syria.)
	FNCB	"	Swiss Bank	June 8	Dollars	30.0	
	Chase	Kuwait Trading Corp.	Morgan, Frankfurt for Hensch & Co. Germany	June 8	Dollars	4.5	(Appear to be physical transfer of securities)
	Morgan, London	Commercial Bank of Kuwait	Lloyds, London	June 7	Sterling	2.2	
	Manufacturers Chemical, N.Y.	Kuwait Investment Of. Board	? Fr. Chemical, London	June 12 June 19	Sterling Dollars	+13.0 + 3.0	(Inflow) (Inflow - redeposits Chase N.Y. and Schroeder, N.Y. - half to each.)
	Manufacturers, London	Kuwait Investment Office	To B. of E.	June 27	Sterling	7.6	
	"	"	?	Various	Sterling	+8.6	(Receipt of funds.)
	Bank of Eng.	Private Kuwait funds	Fr. London Office U.K. bank to Tokyo office	July 6	Sterling	90.0	
	Manufacturers, London	Kuwait Investment Board	To B. of E.	July 11	Sterling	30.0	
<u>Sudan</u>	B. of E.	Central Bank	Swiss National Bank	June 6	Sterling	36.0	(Paid in \$ and swapped back to B. of E. by SNB - balance of account)
	NYFRB	"	Bank of America, New York	June 5	Dollars	.9	(All cash in account)
	FNCB	"	Union Bank, Zurich	June 5	Dollars	3.0	(Request to cancel time deposit & transfer proceeds)
	Swiss Natl.	"	Swiss com. bank	June 14	Sterling	36.0	(Retransfer of Sw. francs back into sterling. See first item above.)

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MOVEMENT OF MID-EAST FUNDS -- JUNE 5-JULY 12

Country	Reporting Bank	Bank Moving Funds	Account to/from Which Transferred	Date Reported	Currency	(Mils. of \$) Amount	Remarks
Libya	FNCB	Central Bank	Swiss commercial bank	June 8	Dollars	9.0	(To break time deposit & transfer proceeds. \$3 mil. released 6/12)
	Irving	"	Union Bank, Zurich	June 12	Dollars	1.5	
	B. of E.	"	Swiss commercial bank	June 14	£ into \$	28.0	(Swapped back to Brit. through com. bank channels)
	FNCB	"	Bank of Foreign Trade, Moscow	June 19	Dollars	3.0	(Part of time deposit held in first item.)
	B. of E.	"	Bank of France for account Central Banks of Egypt, Jordan and Syria	June 22	Sterling	53.0	(£10 to Egypt, £5 to Jordan and £4 to Syria)
	Manufacturers, London	"	To Libyan acct. with Bank of England	June 22	Sterling	14.0	
	NYFRB	"	To Manufacturers, London, then to B. of E. in £	July 3	Dollars	30.0	(probably to split above \$53 mil. assistance between dollars and sterling)
	Morgan, NY	"	Fr. Union Bank of Switz.-Bank of Brussels	July 9	Dollars	3.0	(half each bank)
	Chase, London	"	To Banque du Nord, Paris	July 11	Dollars	3.0	

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MOVEMENT OF MID-EAST FUNDS -- JUNE 5- JULY 12

<u>Country</u>	<u>Reporting Bank</u>	<u>Bank Moving Funds</u>	<u>Account to/from Which Transferred</u>	<u>Date Reported</u>	<u>Currency</u>	<u>(Mils. of \$) Amount</u>	<u>Remarks</u>
<u>raq</u>	B. of E.	Central Bank	Various (largely Sweden)	June 5	Sterling	65.0	(Represents about half of account)
	NYFRB	"	Various (Mostly Banque du Nord, Paris)	June 5&6	Dollars	41.0	(All of account of which \$9 was transferred from U. K. and represents Payment of \$65 above)
	NYFRB	"	Rafidain Bank, Baghdad, at Irving Trust, New York	June 12	Dollars	0.5	
	NYFRB	"	From B. of E.	June 28	Dollars	14.0	(Of which \$6 paid to Swiss Bank Corp., N.Y., & \$3 to Bank of Tokyo, N.Y.)
	Chase, N.Y.	"	To Bank of Libya	July 3	Dollars	2.2	

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MOVEMENT OF MID-EAST FUNDS -- JUNE 5 - JULY 12

Country	Reporting Bank	Bank Moving Funds	Account to/from Which Transferred	Date Reported	Currency	(Mils. of \$) Amount	Remarks
Saudi Arabia	Chase	SAMA(?)	Swiss commercial bank	June 8	Dollars	2.5	
	Chase	SAMA	Netherlands commercial bank	June 8	Dollars	?	
	FNCB, London	?	Swiss Commercial bank	June 6	Dollars	7.0	
	Chase, London	SAMA	Union Bank, Zurich	June 5	Dollars	10.0	
	Irving	Natl. Com. Bank	?	June 13	Dollars	1.0	
	FNCB	SAMA	Allgemeine Bank, Jidda	June 14	Dollars	10.0	
	Chase	SAMA	Funds received from Commerce Bank, Dusseldorf	June 15	Dollars	+2.4	May be transaction reported above. (Inflow)
	Chase	SAMA	Funds received from Chase, London	June 15	Dollars	+4.0	(Inflow)
	Chase	SAMA	Funds received from ARAMCO	June 16	Dollars	+20.6	(Inflow)
	Chase	SAMA	Chase, London	June 16	Dollars	10.0	
	Morgan	SAMA	Morgan, London	June 16	Dollars	2.5	
	Morgan	SAMA	Funds received from ARAMCO	June 21	Dollars	+3.3	(Inflow)
	Chase, N.Y.	SAMA	To Chase, London	June 27	Dollars	10.0	
	Chase, Lon.	SAMA	Various NY banks	July 11	Dollars	7.0	(\$5 to Chase, NY, \$1 to Irving, NY & \$1 to B. of A., NY)

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MOVEMENT OF MID-EAST FUNDS -- JUNE 5-JULY 12

Country	Reporting Bank	Bank Moving Funds	Account to/from Which Transferred	Date Reported	Currency	(Mils. of \$) Amount	Remarks
Egypt	NYFRB	Central Bank	Moscow, Narodny, London	June 9	Dollars	1.5	(Balance kept negligible but transfer in and out (into account))
	Chase	"	Banca Commerciale, Rome to Moscow	June 8	"	+1.0	
	NYFRB	"	Narodny, London				
	NYFRB	"	for Egyptian Acct.		"	1.2	
	NYFRB	"	Various (most Moscow Narodny, London)	June 5 & 6			
	NYFRB	"	Central Bank, Jordan	June 14	Dollars	1.0	
	NYFRB	"	Arab Bank Overseas, Zurich Office	June 14	"	1.0	
	NYFRB	"	Chase, N.Y., for acct. Union Europeenne	June 15	"	0.7	
			I. & F., Paris		"		
	Morgan	League of Arab States	Arab Bank overseas, Zurich	June 14 & 15	"	1.0	(Redeposited with Morgan, London)
	Chase	United Arab Airline	Swiss com. bank	June 19	"	1.8	(Variety of additional smaller transfers thru Fed's account)
	NYFRB	Central Bank	Credit Lyonnais, Paris	June 19	"	0.3	
	NYFRB	"	Swiss Bank Corp., London (thru Midlands, London)	June 22	"	0.3	
	NYFRB	"	Fr. Union Bank,	July 6	"	2.0	
Jordan	FNCB, London	?	Swiss com. bank	June 8	Sterling	0.7	
	Manufacturers, London	?	"	June 7	"	2.5	
	FNCB	Central Bank	?	June 7	Dollars	-2.8]	(Transaction in and out of account)
	Morgan, N.Y.	"	FNCB, London	June 12	"	+3.0]	
	Morgan, N.Y.	"	FNCB, London	June 12	"	6.9	
	Manufacturers, London	"	(receipt)?	June 19	Sterling	1.5	(inflow to Jordanian account)
	"	"	(receipt)	June 22	Sterling		(" ")
	"	"	"	July 10	Sterling	5.6	
	"	"	To various British commercial banks	July 11	Sterling	7.8	

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MOVEMENT OF MID-EAST FUNDS -- JUNE 5-JULY 12

Country	Reporting Bank	Bank Moving Funds	Account to/from Which Transferred	Date Reported	Currency	(Mils. of \$) Amount	Remarks
<u>Qatar</u>	Bankers Tr., London	?	Manufacturers, London	June 7	Sterling	2.5	(Shift from one U.S. London branch to another)
<u>Lebanon</u>	Irving Trust	Central Bank	Swiss com. bank	June 9	Dollars	11.5	(Represents accumulation of funds in Central Bk. acct. from Lebanese com. bank)
	Morgan, London	"	"	June 9	Sterling	3.5	
	Chase	"	Moscow Narodny	June 7&8	Dollars	+3.4	(Inflow)
	Bank of America	"	Chase, N.Y.	June 7	Dollars	3.0	
	Chase, N.Y.	Chase, Beirut	Arab Bank Ltd., for	June 13	"	2.5	(Numerous small deposits and payments with various NY banks for account of Banque du Libon)
	Chase, N.Y.	Banca di Roma, Beirut	Banque du Libon	June 13	"	1.0	
	Chase, N.Y.	Moscow Narodny, London	Banque du Libon	June 13	"	2.0	
	Bank of Amer.	Central Bank	Union Bk., Zurich by order of Arab, Africa Bank, Beirut	June 15	"		
	Chase	"	Various N.Y. accts. of Banque du Libon	Various	"	25.0	(B. of A., SF, now has granted overdraft of \$8.5 mil.)
	Chase	"	Allgemeine Bank, N.Y.	June 16	"	2.0	
	Chase	"	Bank of Nova Scotia, Beirut	June 16	"	1.3	
	Chase	Arab Bank, Beirut	Received from Fuji Bank	June 22	"	1.5	(inflow)
	Bank of America, SF	Central Bank	Received from Chase, NY	July 7	"	10.0	(Pay off overdraft)

NOTE: Numerous transfers of small amounts in and out of various Lebanese accounts here and abroad -- see previously distributed detailed lists.

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